

Message Text

PAGE 01 STATE 146389

63

ORIGIN STR-04

INFO OCT-01 EUR-12 IO-10 ISO-00 FEA-01 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07

INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05

CIEP-01 SS-15 TAR-01 TRSE-00 PRS-01 SP-02 OMB-01

AF-06 ARA-06 EA-06 NEA-10 OIC-02 USIE-00 INRE-00

NSCE-00 SSO-00 /127 R

DRAFTED BY STR:GFEKETEKUTY:RCF

APPROVED BY STR:CYEUTTER

LABOR:LLAVALLEE

USDA:GWHITE

USDA:BSIMPSON

COMMERCE:SCRAVEN

TREAS:MFELDMAN

STR:GFEKETEKUTY

STATE:CBILLOW

STATE:JPLACKE

----- 121555

O 210022Z JUN 75 ZFF4

FM SECSTATE WASHDC

TO USDEL MTN GENEVA NIACT IMMEDIATE

INFO USMISSION EC BRUSSELS IMMEDIATE

LIMITED OFFICIAL USE STATE 146389

E.O. 11652:N/A

TAGS: ETRD, MTN

SUBJECT: MTN GRAINS SUBGROUP: POSITION PAPER, JUNE 23
MEETING

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 STATE 146389

PROBLEM: THE WORK PROGRAM FOR THE SECOND MEETING OF THE
SUBGROUP IS A BALANCED ONE WHICH PRESERVES THE OPTIONS OF
ALL PARTIES BY GIVING EQUAL ATTENTION TO THE THREE TOPICS
OF STABILIZATION, LIBERALIZATION AND LDC CONCERNS. THE
OVERALL U.S. OBJECTIVE FOR THE MEETING IS TO MAINTAIN A

CONSTRUCTIVE APPROACH TO THE WORK ON GRAINS BY THE SUBGROUP. IN PURSUING THIS OBJECTIVE THE U.S. WILL (1) MAKE A FORMAL PRESENTATION PROPOSING A WORK PROGRAM FOR THE SUBGROUP TO CARRY OUT; AND (2) ENSURE THAT TRADE LIBERALIZATION PLAYS AS PROMINANT A ROLE AS POSSIBLE IN THE MEETING AND IN THE

SUBGROUP'S FUTURE WORK. (THE EC IS EXPECTED TO PRESS ITS VIEW THAT THE SUBGROUP ADOPT ITS CONCEPT OF A COMPREHENSIVE GRAINS AGREEMENT AS THE SOLE MEANS FOR SOLVING PROBLEMS IN GRAINS TRADE.

U.S. POSITION:

1. GENERAL. THE U.S. AIM IS TO OFFER A POSITIVE, CONSTRUCTIVE PROPOSAL FOR THE SUBGROUP'S WORK PROGRAM AND TO ENSURE THAT A BALANCED REPORT IS FORWARDED TO THE TNC.

2. SELECTION OF CHAIRMAN. THE U.S. DESIRES SELECTION OF A DISTINGUISHED NON-PARTISAN PERSON EXPERIENCED IN GRAINS AND WOULD SUPPORT RONALD MOORE, FORMER EXECUTIVE SECRETARY OF THE INTERNATIONAL WHEAT COUNCIL. SUBJECT TO CONFIRMATION OF AVAILABILITY, THE DELEGATE MAY ALSO SUPPORT KURT HAEFNER, FORMER CHAIRMAN OF THE IWC. SHOULD NEITHER OF THESE PERSONS BE SELECTED, THE U.S. WOULD PREFER THAT A TEMPORARY CHAIRMAN FROM THE SECRETARIAT SERVE UNTIL IT IS DETERMINED WHETHER IT WILL BE POSSIBLE TO AGREE ON A PERSON WITH SUITABLE GRAINS EXPERIENCE AND BACKGROUND. THE DELEGATE SHOULD NOT, HOWEVER, ISOLATE THE U.S. ON THIS MATTER IF OVERWHELMING SUPPORT DEVELOPS FOR THE SECRETARIAT TO FILL THE CHAIR PERMANENTLY; BUT IN THIS CASE, THE DELEGATE SHOULD SUPPORT ONLY PATTERSON WHO CHAIRED THE FIRST MEETING OF THE SUBGROUP.

3. AGENDA. THE DELEGATE MAY AGREE TO ANY AGENDA THAT CONFORMS TO THE COMPROMISE AGREEMENT OF THE FIRST MEETING (CHAIRMAN'S SUMMING UP) -- I.E., THAT THE THREE TOPICS OF LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 03 STATE 146389

STABILIZATION, LIBERALIZATION AND LDC CONCERNS BE GIVEN EQUAL OPPORTUNITY FOR DISCUSSION AND THAT ALL ELEMENTS OF ALL PROPOSALS BE EXAMINED. GIVEN THE U.S. VIEW THAT THE LONG-RUN ADEQUACY OF FOOD SUPPLIES AT REASONABLE PRICES IS DEPENDENT UPON PERMITTING THE MARKET MECHANISM TO OPERATE AS FULLY AND EFFECTIVELY AS POSSIBLE TO ENSURE AN EFFICIENT USE OF RESOURCES AND AN EXPANSION OF WORLD PRODUCTION, THE DELEGATE SHOULD SPEAK FIRST AT THE MEETING PRESENTING THE U.S. PROPOSAL ON A FUTURE PROGRAM OF WORK FOR THE GRAINS SUBGROUP.

4. U.S. PROPOSAL ON FUTURE WORK PROGRAM. IN ITS ANALYSIS OF THE NEED FOR TRADE LIBERALIZATION IN GRAINS, THE U.S.

HAS CONCLUDED THERE ARE SEVERAL IMPORTANT PROBLEM CATEGORIES REQUIRING THE URGENT ATTENTION OF MAJOR TRADING AND PRODUCING COUNTRIES, E.G., THE PLACING OF REASONABLE BOUND LIMITS ON MONETARY CHANGES ON IMPORTS; ESTABLISHMENT OF IMPROVED MARKET ACCESS; ADOPTION OF AN AGREED CODE OR SET OF RULES ON EXPORT SUBSIDIES; ESTABLISHMENT OF IMPROVED SAFEGUARD PROCEDURES RELATING TO IMPORT INJURY; ADOPTION OF NEW RULES RELATING TO SUPPLY AND MARKET ACCESS. THE U.S. RECOGNIZES THAT THERE MAY BE OTHER CATEGORIES THAT OTHER COUNTRIES WOULD ADD TO THIS LIST.

TO MOVE FORWARD AS EXPEDITIOUSLY AS POSSIBLE WITH ITS WORK IN THIS KEY AREA OF GRAINS NEGOTIATIONS, THE U.S.

PROPOSES THE FOLLOWING WORK PROGRAM FOR THE SUBGROUP: (1) AT ITS NEXT MEETING, THE SUBGROUP WOULD TAKE UP A LIMITED NUMBER (PERHAPS ONE OR TWO) OF THE MAJOR CATEGORIES OF MEASURES DEEMED BY COUNTRIES TO HAVE AN IMPORTANT BEARING ON THEIR OBJECTIVES FOR GRAINS IN THE MTN. THE U.S. SUGGESTS THAT PRIORITY BE GIVEN TO VARIABLE LEVIES/MINIMUM IMPORT PRICES, EXPORT SUBSIDIES, AND SUPPLY AND MARKET ACCESS; (2) THE SUBGROUP WOULD BASE ITS WORK AT THIS MEETING ON DOCUMENTS TO BE SUBMITTED BY THE SECRETARIAT SUMMARIZING THE MEASURES EMPLOYED BY COUNTRIES IN THESE CATEGORIES, WITH THE UNDERSTANDING THAT PARTICIPATING DELEGATIONS COULD INTRODUCE ADDITIONAL RELEVANT MATERIAL; (3) THE AGREED TASK OF THE SUBGROUP WOULD BE TO (A) ASCERTAIN THE ECONOMIC EFFECTS OF THESE MEASURES ON BOTH IMPORTING LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 04 STATE 146389

AND EXPORTING COUNTRIES, (B) CONSIDER SPECIFIC PROPOSALS FROM COUNTRIES REGARDING THESE ELEMENTS, AND (C) COMMUNICATE THE RESULTS TO OTHER GROUPS CONCERNED, INCLUDING THE TARIFF AND NONTARIFF MEASURES GROUPS, AS PROVIDED IN THE TERMS OF REFERENCE AGREED BY THE AGRICULTURAL COMMITTEE; (4) AS THE SUBGROUP COMPLETED THIS INTENSIVE EXAMINATION OF THE FIRST MAJOR ELEMENT(S), IT COULD TAKEUP ADDITIONAL ONES. CLEARLY THE INTERRELATIONSHIPS BETWEEN THESE ELEMENTS WOULD SURFACE DURING THE PROCESS OF CONSIDERING COUNTRIES' PROPOSALS AND THESE WOULD BE NOTED AND BROUGHT TOGETHER IN THE FINAL PHASE OF THE SUBGROUP'S WORK WHICH WOULD BE TO WORK IN CONJUNCTION WITH THE TARIFF AND NONTARIFF GROUPS IN ARRIVING AT A HARMONIOUS AND BALANCED DEVELOPMENT OF ALL THE ELEMENTS SUBJECT TO NEGOTIATION.

5. STABILIZATION. THE EC HAS FORMALLY PROPOSED THAT THE SUBGROUP EXPLORE THE CREATION OF A COMPREHENSIVE GRAINS AGREEMENT BASED ON ADMINISTERED PRICES. WE DO NOT WISH TO ENGAGE THE EC IN AN EXTENDED DISCUSSION OF THEIR PROPOSAL AT THIS MEETING; WHICH WOULD COMPROMISE OUR OVERALL OBJECTIVE AT THIS MEETING.

6. OBJECTIVES CONCERNING DEVELOPING COUNTRIES. THE DELEGATE SHOULD HANDLE THIS PORTION OF THE DISCUSSION WITH GREAT CARE SINCE THE U.S. IS STILL IN THE PROCESS OF IDENTIFYING THE TYPES OF "SPECIAL" AND "DIFFERENTIAL" MEASURES THAT MAY REALISTICALLY BE CONSIDERED IN THE CONTEXT OF THE TOKYO DECLARATION. AT THIS STAGE HE SHOULD RAISE THE FOLLOWING AS "ISSUES" THAT THE U.S. BELIEVES REQUIRE FURTHER STUDY.

(A) FOOD AID. AT PRESENT, MULTILATERAL FOOD AID COMMITMENTS INVOLVING GRAINS ARE EFFECTED IN THE FOOD AID CONVENTION (FAC) OF THE INTERNATIONAL WHEAT AGREEMENT AND THE WORLD FOOD PROGRAM, BOTH OF WHICH ARE STRONGLY

SUPPORTED BY THE U.S. IT IS NOT AT THIS POINT CLEAR WHAT PURPOSE WOULD BE SERVED BY INCLUDING FOOD AID IN YET ANOTHER MULTILATERAL FORUM -- THE MTN -- WHICH IS PRIMARILY CONCERNED WITH THE LIBERALIZATION AND EXPANSION OF WORLD TRADE, INCLUDING THE TRADE OF DEVELOPING COUNTRIES. LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 05 STATE 146389

AT MINIMUM, THE QUESTION OF DUPLICATION OF EFFORT ARISES. IN OUR VIEW, THE LEVEL OF FOOD AID IS NOT TO BE NEGOTIATED IN THE MTN. WHILE IT IS TRUE THAT FOOD AID WAS A PART OF THE GRAINS PACKAGE OF THE KENNEDY ROUND, THIS CAME ABOUT PRIMARILY AS A BALANCING OF CONCESSIONS AMONG AID DONOR COUNTRIES TO ACHIEVE A MORE EQUITABLE SHARING OF THE AID BURDEN AND TO REDUCE SURPLUS COMMERCIAL SUPPLIES. IT WAS NOT, PER SE, A MEASURE TO ACHIEVE THE REALIZATION OF A WORLD FOOD AID TARGET IN LINE WITH THE PERCEIVED NEEDS OF DEVELOPING COUNTRIES AS, FOR EXAMPLE, IS REFLECTED IN RESOLUTION 18 OF THE WORLD FOOD CONFERENCE.

(B) CONCESSIONAL SALES. TO THE EXTENT THAT CONCESSIONAL SALES MIGHT BE CONCEIVED IN TERMS OF QUANTITATIVE TARGETS INVOLVING "DUAL PRICING" OR CONCESSIONAL FINANCING MEASURES WHICH, IN EFFECT, PROVIDE A LIMITED TRANSFER OF RESOURCES FROM DEVELOPED COUNTRIES, SIMILAR ISSUES ARISE AS IN THE CASE OF FOOD AID. CONCESSIONAL FINANCING MAY BE DISCUSSED IN THE MTN SUBGROUP ON SUBSIDIES AND COUNTERVAILING DUTIES TO DISTINGUISH SUBSIDY ELEMENTS FROM LEGITIMATE AID TO DEVELOPING COUNTRIES. THERE MAY, ALSO BE OTHER AREAS WHERE THE POSSIBLE MODIFICATION OF GATT RULES WILL REQUIRE SPECIAL CONSIDERATION OF THE QUESTION OF CONCESSIONAL SALES, AND THE U.S. WOULD WISH TO EXAMINE THESE ON A CASE-BY-CASE BASIS.

(C) DIFFERENTIAL TREATMENT. IN CONTRAST TO FOOD AID AND CONCESSIONAL SALES, THE TOKYO DECLARATION SPECIFICALLY PROVIDES FOR THE APPLICATION OF DIFFERENTIAL

MEASURES TO DEVELOPING COUNTRIES IN WAYS WHICH WILL PROVIDE SPECIAL AND MORE FAVORABLE TREATMENT FOR THEM IN AREAS OF THE NEGOTIATION WHERE THIS IS FEASIBLE AND APPROPRIATE." THE U.S. IS COMMITTED TO EXAMINING ALL AREAS OF THE NEGOTIATIONS AT EACH STEP TO IDENTIFY SUCH FEASIBLE AND APPROPRIATE MEASURES AND WELCOMES THE IDEAS AND SUGGESTIONS OF OTHER DELEGATIONS AS TO WHAT MIGHT BE DONE IN THE VARIOUS NEGOTIATIONS ULTIMATELY TOUCHING ON GRAINS.

7. AS REQUIRED, THE DELEGATE MAY DRAW ON THE MATERIAL ON LIBERALIZATION AND STABILIZATION IN THE ANNEX TO THIS PAPER.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 06 STATE 146389

ANNEX. THE DELEGATE MAY, AS APPROPRIATE, DRAW ON THE DISCUSSION BELOW IN STATING THE PROBLEMS AND LIMITATIONS

THAT THE U.S. SEES IN THE EC PROPOSAL FOR A COMPREHENSIVE GRAINS AGREEMENT BASED ON ADMINISTERED PRICES. CARE SHOULD BE TAKEN TO ENSURE THAT THIS IS DONE ON AN OBJECTIVE AND, TO THE MAXIMUM EXTENT POSSIBLE, NON-IDEOLOGICAL BASIS SO AS NOT TO PRODUCE A CONFRONTATION UNNECESSARILY. IN REFERENCE TO THE EC PROPOSAL HE MAY STATE THAT THE U.S. PERCEIVES NO EVIDENCE THAT IT ADDRESSES THE MAJOR CAUSES OF MARKET INSTABILITY. THE STOCK MECHANISM OF THE PROPOSAL APPEARS TO BEAR THE IMPOSSIBLE BURDEN OF BEING THE SOLE ADJUSTMENT MECHANISM THAT WOULD BE PERMITTED TO OPERATE (TO KEEP PRICES WITHIN A GIVEN RANGE) WHEN, REALISTICALLY, SUCH A MECHANISM IS USEFUL ONLY FOR COMPENSATING FOR SHORT TERM RANDOM FLUCTUATIONS IN SUPPLY AND DEMAND AND FOR PROVIDING A MINIMUM LEVEL OF WORLD FOOD SECURITY. (FYI. THIS IS THE CASE WE HAVE MADE IN THE LONDON TALKS ON AN INTERNATIONAL SYSTEM OF NATIONAL GRAIN RESERVES. END FYI). THE STRUCTURE AND PATTERN OF WORLD GRAIN PRODUCTION AND THE DEVELOPMENT OF DEMAND WILL, IN FACT, DETERMINE PRICES IN THE LONG RUN (IRRESPECTIVE OF SHORT TERM STOCK MEASURES) AND THE LONG RUN ADEQUACY OF FOOD SUPPLIES AT REASONABLE PRICES IS DEPENDENT ON PERMITTING THE MARKET MECHANISM TO OPERATE EFFECTIVELY TO ENSURE AN EFFICIENT PATTERN OF WORLD PRODUCTION.

1. LIBERALIZATION. IN DISCUSSING THE DISRUPTIVE EFFECTS ON WORLD MARKETS OF RESTRICTIVE MEASURES DURING PERIODS OF RELATIVE SHORTAGE, THE DELEGATE SHOULD DRAW ON THE FOLLOWING DISCUSSION OF "STABILIZATION." HOWEVER, PERIODS OF RELATIVE SURPLUS RATHER THAN SHORTAGE HAVE DOMINATED WORLD MARKETS DURING THE PAST TWO DECADES AND ARE LIKELY TO RECUR, AT LEAST PERIODICALLY, IN THE FUTURE.

IN THE PAST, SURPLUSES WERE AGGRAVATED AND LARGELY CAUSED BY INCREASINGLY HIGH LEVELS OF IMPORT PROTECTION

ADOPTED BY MAJOR IMPORTING COUNTRIES IN ORDER TO PROTECT
FARM INCOMES THROUGH PRICE GUARANTEES. ALTHOUGH THE U.S.
ALSO RELIED ON PRICE SUPPORT POLICIES DURING MOST OF THE
LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 07 STATE 146389

PERIOD, ITS PRICES WERE LOWER THAN OTHER COUNTRIES'
BECAUSE OF ITS LOWER COST STRUCTURE AND SIGNIFICANT COM-
PARATIVE ADVANTAGE IN GRAIN PRODUCTION. REPEATED U.S.
ATTEMPTS TO BRING ABOUT TRADE LIBERALIZATION IN GRAINS
AND A RESULTING MORE EFFICIENT WORLD ALLOCATION OF
RESOURCES IN AGRICULTURE WERE LARGELY UNSUCCESSFUL. AS
A RESULT OF ITS INABILITY TO ACHIEVE REASONABLE ACCESS TO
MAJOR FOREIGN MARKETS WHICH BECAME INCREASINGLY BURDENED
WITH SURPLUSES, THE U.S. WAS FINALLY LEFT WITH NO ALTERNA-
TIVE BUT TO TAKE LAND OUT OF PRODUCTION -- A TOTAL OF 60
MILLION ACRES OF GRAIN CROPLAND BY 1972. THUS DURING THE

1960S THE WORLD WAS BURDENED WITH A GROSS MISALLOCATION OF
RESOURCES RESULTING FROM INTENSIVE GRAIN PRODUCTION IN
AREAS WITH RELATIVELY HIGH PRICE SUPPORTS, AND A DELIBER-
ATE CUTTING BACK OF PRODUCTION IN LOW COST COUNTRIES.

FOR MAJOR EXPORTING COUNTRIES LIKE THE U.S., THE
DECISION OF OTHER COUNTRIES TO PURSUE INCREASINGLY RESTRIC-
TIVE GRAIN TRADE POLICIES HAS MEANT A LOSS OF EXPORT
EARNINGS AND AN IDLING OF RESOURCES EMPLOYED IN AGRICULT-
URE WITH A CONSEQUENT REDUCTION IN U.S. FARM AND RELATED
INCOMES. PRECISE CALCULATIONS OF THE MAGNITUDE OF TRADE
LOSSES ARE ALWAYS SUBJECT TO DISPUTATION AS TO METHOD-
OLOGY AND ASSUMPTIONS, BUT THROUGH A VARIETY OF APPROACHES
THE U.S. HAS CONSERVATIVELY ESTABLISHED THAT ITS WHEAT
TRADE LOSS ALONE AMOUNTS TO OVER TWO BILLION DOLLARS
PER YEAR. (FYI. THE U.S. DAMAGE ESTIMATE VIS A VIS
THE EC ALONE OVER THE PERIOD 1947-50 TO 1971-72 AMOUNTS TO
1.8 BILLION DOLLARS -- SEE ARTICLE 24.6 U.S. POSITION
PAPERS. END FYI.) MULTIPLIED AT THE FARM AND FARM RELAT-
ED INCOME LEVEL, THE VALUE WOULD OF COURSE BE EVEN HIGHER.

IN WESTERN EUROPE, WHICH ACCOUNTS FOR ABOUT ONE-SIXTH
OF WORLD WHEAT PRODUCTION (A SLIGHTLY LARGER SHARE THAN
THE U.S.), VARIABLE LEVIES AND EXPORT SUBSIDIES HAVE A
MAJOR DISTORTING IMPACT ON WORLD TRADE. EC VARIABLE LEV-
IES ON WHEAT, FOR EXAMPLE, AVERAGED OVER 100 PERCENT AD
VALOREM EQUIVALENT DURING 1969-70 AND 1971-72. AT THE
SAME TIME EC LEVIES WERE INHIBITING MARKET ACCESS, EC
WHEAT EXPORT SUBSIDIES WERE BEING PAID ON EC SUPPLIES
LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 08 STATE 146389

ACCUMULATED AS A RESULT OF HIGH GUARANTEED PRICES. THESE SUBSIDIES HAVE AT TIMES EQUALLED OR EXCEED WORLD MARKET PRICES. THIS PRACTICE HAS REPRESENTED A SIGNIFICANT INTERFERENCE WITH THIRD COUNTRY MARKETS AND HARMED THE INTERESTS OF OTHER EXPORTING COUNTRIES.

THE SITUATION WITH RESPECT TO COARSE GRAINS IS LESS OBVIOUS THAN IN THE CASE OF WHEAT, LARGELY BECAUSE LIMITATIONS IN PRODUCTION CAPACITY IN MOST COUNTRIES, AND A GROWING WORLD DEMAND FOR FEED FOR LIVESTOCK, HAVE RESULTED IN A STEADY GROWTH OF WORLD IMPORTS EVEN IN THE FACE OF SEVERE IMPORT PROTECTION IN SOME MARKETS -- PARTICULARLY THE WORLD'S LARGEST IMPORTING REGION, THE EC. HOWEVER, THE DAMAGE TO U.S. FEEDGRAINS TRADE FROM THESE RESTRICTIVE POLICIES MAY EQUAL OR EXCEED THE DAMAGE TO ITS WHEAT TRADE. THIS IS PARTLY DUE TO THE FACT THAT THE U.S. NORMALLY ACCOUNTS FOR AN EVEN GREATER SHARE (MORE THAN 60 PERCENT) OF WORLD COARSE GRAIN EXPORTS THAN OF WHEAT EXPORTS (ABOUT 45 PERCENT). IT IS ALSO DUE TO THE FACT THAT FEEDGRAIN CONSUMPTION IN WESTERN EUROPE HAS BEEN

SUBSTANTIALLY DEPRESSED FOR AT LEAST TWO DECADES BY PROTECTED, HIGH COST DOMESTIC GRAIN POLICIES THAT HAVE RETARDED THE DEVELOPMENT OF LIVESTOCK FEEDING.

THE U.S. RECOGNIZES THAT THE TRADE RESTRICTIONS AND DISTORTIONS THAT HAVE CHARACTERIZED WORLD GRAIN TRADE HAVE STEMMED FROM NATIONAL SOCIAL AND ECONOMIC OBJECTIVES THAT HAVE APPEARED OVERRIDING TO SOME COUNTRIES. IT IS NOT THE PURPOSE OF THE U.S. TO CALL INTO QUESTION THESE SOCIAL OBJECTIVES (MANY OF WHICH THE U.S. SHARES). IT IS HOWEVER, THE PURPOSE OF THE U.S. TO PERSUADE ITS TRADING PARTNERS THAT IT IS IN THEIR INTEREST, AND IN THE INTEREST OF THE INTERNATIONAL COMMUNITY, TO WORK TOWARD THE KIND OF LIBERALIZATION OF WORLD TRADE IN AGRICULTURE THAT HAS BEEN GENERALLY ACHIEVED IN INDUSTRIAL PRODUCTS UNDER THE GATT. SPECIFICALLY IN THE CASE OF GRAINS -- A COMMODITY SECTOR OF VITAL IMPORTANCE TO VIRTUALLY EVERY COUNTRY OF THE WORLD -- A NUMBER OF MEASURES REQUIRE THE URGENT ATTENTION OF MAJOR PRODUCING AND TRADING COUNTRIES; NONE OF THESE MEASURES WOULD DENY COUNTRIES EFFECTIVE MEANS OF ACHIEVING LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 09 STATE 146389

IMPORTANT NATIONAL SOCIAL OBJECTIVES.

--THE PLACING OF REASONABLE, BOUND LIMITS ON TOTAL MONETARY CHARGES ON IMPORTS (I.E., ON THE LEVEL OF PROTECTION);

--THE ESTABLISHMENT OF IMPROVED MARKET ACCESS;

--THE ADOPTION OF AN AGREED CODE OR SET OF RULES ON
EXPORT SUBSIDIES;

--THE ESTABLISHMENT OF IMPROVED SAFEGUARD PROCEDURES
RELATING TO IMPORT INJURY;

--THE ADOPTION OF NEW RULES RELATING TO SUPPLY
ACCESS.

IN GENERAL, IT IS THE U.S. VIEW THAT THE INCREASING
INTERDEPENDENCE AMONG NATIONS IN AGRICULTURE (IN PARTIC-
ULAR IN RELATION TO FOOD AND GLOBAL EFFORTS TO SOLVE WORLD
FOOD PROBLEMS) MEANS THAT THE TIME HAS COME TO MAKE THE
GATT WORK FOR AGRICULTURE AND INDUSTRY WITH MORE EQUAL
FORCE. SOME OF THE ABOVE MEASURES CLEARLY MUST BE DEALT
WITH ULTIMATELY IN THE CONTEXT OF BOTH INDUSTRY AND
AGRICULTURE. IN ALL CASES, IT IS EXTREMELY IMPORTANT
IN THE U.S. VIEW THAT THE MTN ARRIVE AT A HARMONIOUS AND
BALANCED DEVELOPMENT OF ALL ELEMENTS SUBJECT TO NEGOTIA-
TION IN AGRICULTURE IN ACCORDANCE WITH THE OBJECTIVES

AGREED TO IN THE AGRICULTURE GROUP.

3. STABILIZATION. THE APPROACH PROPOSED BY THE EC
(MTN/GR/W/1) IS TO ESTABLISH FOR WORLD TRADE A PRICE
RANGE FOR GRAINS, DETERMINED BY NEGOTIATION RATHER THAN
BY MARKET FORCES, WHICH WOULD, IN THE VIEW OF THE U.S.,
FREEZE A GIVEN PATTERN OF WORLD PRODUCTION AND WOULD
PREVENT RATHER THAN FACILITATE THE ADJUSTMENTS OF BOTH
PRODUCTION AND CONSUMPTION THAT ARE VITAL TO COPE WITH
SIGNIFICANT SHORTAGE AND SURPLUS SITUATIONS. IN EFFECT,
THIS PROPOSAL WOULD ENABLE STABLE, ALTHOUGH RELATIVELY
HIGH COST, GRAIN PRODUCING AREAS TO LARGELY INSULATE
LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 10 STATE 146389

THEMSELVES FROM THE WORLD MARKET WITH AT LEAST TWO MAJOR
RESULTS.

A. IT WOULD COMPOUND THE DIFFICULTIES OF INHERENTLY
UNSTABLE PRODUCING COUNTRIES (E.G., THOSE WITH A PREVA-
LENCE OF UNPREDICTABLE DROUGHTS, MONSOON VARIATIONS,
WINTER KILL, ETC.) DURING EXTREME EMERGENCIES. DURING
SUCH TIMES, MAJOR TRADING COUNTRIES WOULD BE REQUIRED
ONLY TO RELEASE WHATEVER STOCKS MIGHT BE SURPLUS TO NORMAL
DOMESTIC NEEDS; THERE WOULD BE NO FURTHER RESPONSIBILITY
TO ALLOW WORLD PRICES TO INFLUENCE DOMESTIC CONSUMPTION
(FOR EXAMPLE BY REDUCING LIVESTOCK FEEDING) IN ORDER TO
RELEASE ADDITIONAL SUPPLIES TO THE WORLD MARKET; AND

B. IT WOULD SHIFT THE BURDEN OF ADJUSTMENT TO
STRUCTURAL SURPLUSES (WHICH WOULD BE A CHRONIC PROBLEM IF

THE MAXIMUM/MINIMUM PRICE RANGE WERE SET TOO HIGH) TO MAJOR EXPORTING COUNTRIES.

FYI: DURING THE 1972/73-1974/75 CROP YEARS, THE UNITED STATES DECREASED GRAIN CONSUMPTION SUBSTANTIALLY (36 MILLION TONS OR 20 PERCENT) BY SUBJECTING ITS MARKET TO THE INFLUENCE OF WORLD PRICES. THE EC, ON THE OTHER HAND, ESSENTIALLY MAINTAINED TOTAL GRAIN CONSUMPTION IN EACH OF THESE YEARS (ALTHOUGH THERE WERE SOME SHIFTS BETWEEN WHEAT AND COARSE GRAINS IN ANIMAL FEEDING) BY SUCH DEVICES AS DENATURING PREMIUMS AND GRAIN EXPORT TAXES. IF THE EC HAD MAKE THE SAME PERCENTAGE ADJUSTMENT IN TOTAL GRAIN CONSUMPTION THAT OCCURRED IN THE U.S., AN ADDITIONAL 23 MILLION TONS OF GRAIN COULD HAVE BEEN RELEASED TO WORLD MARKETS OVER THE SAME TWO YEAR PERIOD. THEREFORE, THE MAINTENANCE OF A GIVEN SET OF ADMINISTERED PRICES BY THE EC HAS CONTRIBUTED SIGNIFICANTLY TO THE INSTABILITY IN WORLD PRICES. YET, THIS IS THE BASIC SYSTEM THAT THE EC IS PROPOSING THAT ALL COUNTRIES ADOPT AS AN INTERNATIONAL UNDERTAKING TO INCREASE MARKET STABILITY. END FYI.

IN THE U.S. VIEW, THE EC PROPOSAL IS INCONSISTENT WITH THE BASIC CONCEPTS OF LIBERALIZATION, COMPARATIVE ADVANTAGE AND ECONOMIC INTERDEPENDENCE THAT UNDERLIE THE GATT AND PROVIDE THE BASIS FOR AN EFFICIENT, FUNCTIONING LIMITED OFFICIAL USE LIMITED OFFICIAL USE

PAGE 11 STATE 146389

INTERNATIONAL MARKET WHICH ALONE CAN PROVIDE LONG TERM SECURITY AND STABILITY OF MARKETS FOR THE WORLD AT LARGE UNDER AN EFFICIENT ALLOCATION OF AGRICULTURAL RESOURCES.

SOME POINTS IN THE MAY 26 EC STATEMENT (ENGLISH VERSION OF MTN/GR/W/1) TO THE SUBGROUP PROPOSING AN INTERNATIONAL AGREEMENT ON GRAINS COULD ALSO BE COMMENTED ON BY THE DELEGATE, IF APPROPRIATE:

A. THE EC ACKNOWLEDGES (P. 2, PARA 2) THAT THE INSTABILITY OF GRAIN MARKETS MAY HAVE BEEN ACCENTUATED BY DOMESTIC PRODUCTION POLICIES; BUT, IN THE NEXT PARAGRAPH, IT ARGUES THE DIFFICULTY OF REMOVING TARIFF AND NONTARIFF BARRIERS (WHICH PROTECT PRODUCTION POLICIES) BECAUSE OF THE NEED TO PROTECT PRODUCERS FROM INSTABILITY. THERE IS A CERTAIN CIRCULARITY ABOUT THIS REASONING. THE ESSENTIAL POINT RELATING TO MARKET INSTABILITY IN GRAINS IS THAT A PRIMARY CAUSE IS THE PROTECTIONIST, INWARD-LOOKING TRADE POLICIES OF MAJOR TRADING COUNTRIES. BY LIBERALIZING THESE POLICIES, THE MAJOR CAUSES OF INSTABILITY WOULD BE REMOVED AND THE REMAINING INSTABILITY INHERENT IN RANDOM WEATHER-RELATED PRODUCTION FLUCTUATIONS AND UNFORESEEABLE MOVEMENTS IN DEMAND WOULD BE OF MANAGEABLE PROPORTIONS.

B. IN PARAGRAPH 4 OF PAGE 2, THE EC HIGHLIGHTS THE INADEQUATE SUPPLY SITUATION THAT EXISTED DURING 1972-74. GIVEN THIS ACKNOWLEDGED SITUATION, IT IS IMPORTANT TO NOTE THAT THE EC SYSTEM OF PREDETERMINED ADMINISTERED PRICES LED IT TO ADOPT, AGAINST THE INTERESTS OF INTERNATIONAL STABILIZATION, POLICIES OF (1) DISCOURAGING AN ADJUSTMENT IN EC DOMESTIC GRAIN CONSUMPTION BY LEVYING EXPORT TAXES AND THUS HOLDING THE DOMESTIC PRICE LINE, AND (2) PAYING DENATURING PREMIUMS UNTIL AS LATE AS FEBRUARY, 1974 ON WHEAT FED TO LIVESTOCK, THEREBY FURTHER ENCOURAGING GRAIN CONSUMPTION.

C. PARA 5 OF PAGE 2 CLAIMS THAT THE SUSTAINED RATE OF GROWTH OF GRAIN PRODUCTION WAS ONLY ACHIEVED THROUGH THE INTENSIFIED USE OF AVAILABLE RESOURCES. THIS IS OBVIOUSLY NOT ACCURATE SINCE DURING THE PERIOD OF SUSTAINED PRODUCTION GROWTH THE U.S. WITHDREW 60 MILLION ACRES FROM GRAIN LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 12 STATE 146389

PRODUCTION BECAUSE OF LACK OF ACCESS TO PROTECTED, HIGH COST WORLD MARKETS. HAD THIS HIGHLY PRODUCTIVE LAND REMAINED IN CULTIVATION AND ITS PRODUCTION EXPORTED TO OTHER MARKETS, THE INTENSIFICATION OF NON-LAND INPUTS IN

OTHER PRODUCING AREAS WOULD HAVE BEEN OF A LESSER DEGREE. THIS, IN TURN, WOULD HAVE PERMITTED GREATER SCOPE FOR AN INTENSIFICATION OF SUCH NON-LAND INPUTS DURING THE PAST THREE YEARS WHEN A RAPID PRODUCTION RESPONSE WAS NEEDED. IN OTHER WORDS, THE PRODUCTION RESPONSE WOULD HAVE BEEN GREATER IN RECENT YEARS WITH U.S. LAND IN FULL CULTIVATION, AND THE DEGREE OF MARKET INSTABILITY WOULD HAVE BEEN CORRESPONDINGLY REDUCED. THIS AGAIN ILLUSTRATES THAT TRADE LIBERALIZATION SHOULD BE THE MAJOR GOAL OF THE MTN IN GRAINS SO THAT THE HISTORY OF THE PAST DECADE WILL NOT BE REPEATED IN THE NEXT.

D. AS PREVIOUSLY STATED, THE U.S. BELIEVES THAT THE EC PROPOSAL WOULD ENABLE STABLE, RELATIVELY HIGH COST GRAIN PRODUCING AREAS TO BE LARGELY EXEMPTED FROM ASSISTING COUNTRIES IN REGIONS WITH INHERENTLY UNSTABLE PRODUCTION IN MEETING EXTREME SHORTFALLS. IN PARAGRAPH 1 OF PAGE 3, THE EC APPEARS TO BE ACKNOWLEDGING THAT THIS FACT MUST BE TAKEN FOR GRANTED AND THAT MARKET STABILIZATION MEASURES MUST BE CONFINED TO THOSE THAT DO NOT UPSET DOMESTIC EC CONSUMPTION. IN OTHER WORDS, ONLY STOCK MEASURES (WHICH ARE INADEQUATE TO THE OVERALL PROBLEM) ARE TO BE AVAILABLE UNDER THE EC CONCEPT.

E. WITH RESPECT TO THE ABOVE POINT, ON PAGE 1, PARA 5, THE EC SAYS THAT ITS APPROACH RELATED TO QUOTE SOME UNQUOTE OF THE CAUSES UNDERLYING MARKET STABILITY. IN OUR VIEW,

QUOTE ONE UNQUOTE OF THE CAUSES WOULD HAVE BEEN A BETTER
DESCRIPTION--I.E., THE SINGLE PROBLEM THAT THE PROPOSAL
MIGHT ADDRESS IS THE CURRENT LACK OF ADEQUATE STOCK
POLICIES TO DEAL WITH SHORT TERM WORLD FOOD SECURITY NEEDS.
A STOCK POLICY IS INHERENTLY INCAPABLE OF DOING MORE
EXCEPT AT THE EXORBITANT COST OF ACCUMULATING AND HOLDING
EXTREMELY LARGE STOCKS. THE ECS ELABORATE STATEMENT ON
PAGE 5, PARA 4 THAT ITS SOLUTION ENCOMPASSES QUOTE ALL THE
PROBLEMS THAT ARISE IN REGARD TO TRADE IN GRAINS UNQUOTE
LIMITED OFFICIAL USE
LIMITED OFFICIAL USE

PAGE 13 STATE 146389

IS THEREFORE IN CURIOUS CONTRAST TO ITS MORE MODEST
STATEMENT ON PAGE 1 AND IS NOT, IN THE U.S. VIEW, IN ANY
WAY JUSTIFIED. KISSINGER

LIMITED OFFICIAL USE

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEETING REPORTS, GRAINS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: RowellE0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE146389
Document Source: ADS
Document Unique ID: 00
Drafter: STR:GFEKETEKUTY:RCF
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: D750216-0383
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197506102/baaaangu.tel
Line Count: 560
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN STR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 11
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: RowellE0
Review Comment: n/a
Review Content Flags:
Review Date: 16 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 APR 2003 by ElyME>; APPROVED <05 NOV 2003 by RowellE0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: ETRD, TN
To: MTN GENEVA NIACT INFO EC BRUSSELS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006